

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re

AMR CORPORATION, *et al.*,

Debtors.

Chapter 11

Case No. 11-15463 (SHL)

(Jointly Administered)

**AMENDED DECLARATION OF KEN KEVERIAN IN SUPPORT OF EMPLOYMENT
AND RETENTION OF THE BOSTON CONSULTING GROUP, INC.,
AS STRATEGIC CONSULTANTS TO AMERICAN AIRLINES, INC.,
NUNC PRO TUNC TO THE COMMENCEMENT DATE**

I, KEN KEVERIAN, under penalty of perjury, declare as follows:

1. I am a Senior Partner and Managing Director at The Boston Consulting Group, Inc. (“**BCG**”), a consulting services firm, which has offices located at 53 State Street, Boston, Massachusetts 02109. I am duly authorized to make this Amended Declaration on behalf of BCG in support of the application (the “**Application**”)¹ of AMR Corporation, American Airlines, Inc., AMR Eagle Holding Corporation, and certain of their subsidiaries (collectively, the “**Debtors**” or “**American**”) for entry of an order authorizing the employment and retention of BCG as strategic consultants for American, *nunc pro tunc* to the Commencement Date, under the terms and conditions set forth in the Statement of Work attached hereto as Exhibit 1. I submit this Amended Declaration in accordance with Sections 327(a) and 328(a) of title 11 of the United States Code (the “**Bankruptcy Code**”), Rules 2014(a), 2016 and 5002 of the Federal Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”) and Rules 2014-1 and 2016-1 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Southern District of New York (the “**Local Bankruptcy Rules**”).

¹ All capitalized terms used but otherwise not defined herein shall have the meanings set forth in the Application or the Statement of Work, as appropriate.

2. Except as otherwise noted, the statements set forth herein are as a result of my employment position and diligence undertaken by me or by persons working under my direction and, if called and sworn as a witness, I would testify competently thereto.

A. BCG's Qualifications

3. Founded in 1963, BCG is a global management consulting firm and the world's leading advisor on business strategy. BCG is a private company, which, in combination with its various affiliates, has seventy-four offices in forty-two countries.² BCG's 4,800 consultants come from a wide variety of backgrounds, holding diplomas in all disciplines, from business administration and economics to engineering and law.

4. BCG's consultants have substantial expertise and extensive experience in the transportation industry, within which BCG has played a significant role in improving corporate strategy, brand development and management, as well as operational effectiveness and sustainability. Through these projects, BCG has helped its clients create competitive advantages by enhancing their operating performance and building strategic capabilities.

5. Further, BCG has worked with American on major assignments over many years and holds substantial institutional knowledge of its operations, organization, strategy and management. Most recently, with regard to American's effort to improve heavy maintenance operations, BCG helped to identify drivers and opportunities for longer term operational performance improvement, as well as initiatives that should result in measurable improvement. With regard to American's effort to maximize revenue, BCG provided analytical support to pinpoint short-term and long-term revenue enhancement opportunities, and recommended specific initiatives, including product enhancements, to capture maximum value.

² BCG's foreign affiliates are separate corporate entities that will not be working on this engagement.

These assignments and others have provided an invaluable foundation for continuing to serve American.

6. BCG has been approached by American to assist on a new assignment. This assignment will assist American in implementing a new management restructuring strategy. This program is aimed at helping American redesign the organization of management to foster greater accountability, high performance, adaptability, as well as fast and effective decision-making. BCG also will help design a more efficient management cost structure.

7. Accordingly, BCG has the skills, qualifications and expertise necessary to assist American in an efficient and cost-effective manner.

B. Proposed Services³

8. As described in the Statement of Work, BCG will provide, among other things, services to launch a “cascade” program, helping to create a management structure that fosters greater accountability, high performance, adaptability, as well as fast and effective decision-making. The program starts at the top and cascades down from there. In essence, the program will result in redesigning the management structure at American so that it is more focused, efficient, and competitive. BCG’s program is a methodology which BCG has uniquely utilized that has resulted in successful redesigns of management structures at companies in various industries.

9. The cascade process includes several key steps:

- The initial diagnostic step involves gathering a detailed fact-base for the current organization. This step often surfaces opportunities where spans of control may be low,

³ The summary of the Statement of Work contained in this amended declaration is provided for purposes of convenience only. In the event of any inconsistency between the summary contained herein and the terms and provisions of the Statement of Work, the terms of the Statement of Work shall control.

banding levels are over-stated, activities may be in the wrong place, and/or the number of layers is high.

- The next step is the planning step. The planning step sets up principles and design rules for a redesign to address the opportunities as well as other strategic objectives for the company.

- The final step is the cascade redesign. This step involves the actual redesign of the organizational structure at all management layers.

10. BCG estimates that the cascade engagement will take approximately thirty-two (32) weeks to complete for all layers of management at American.

11. To the extent that American requests additional services in the future other than those detailed in the Statement of Work, American shall seek further application for an order of approval by the Court for a supplement to the retention and any related modifications to the Statement of Work and such application shall set forth, in addition to the additional services to be performed, the additional fees sought to be paid.

12. The services that BCG provides will help overall organization effectiveness. To the best of my knowledge, the services will not duplicate the services of any other professional that the Debtors have retained in these cases. In addition, BCG will use reasonable efforts to coordinate its services with the Debtors and their other professionals.

C. Compensation

13. Subject to Court approval, and in compliance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Bankruptcy Rules, the Fee Guidelines and any other applicable procedures and orders of this Court, American will

compensate and reimburse BCG in accordance with the terms and conditions of the Statement of Work.

14. In the ordinary course of its business, BCG normally bills on its engagements based on a project basis which takes into consideration the resources and duration associated with each engagement. In determining its compensation structure, BCG's proposed fees include all expenses associated with this engagement. American and its estate, therefore, will incur no additional charges for the reimbursement of actual, necessary expenses incurred by BCG in performing its services under the Statement of Work. American will compensate BCG in accordance with the terms and conditions of the Statement of Work, which provide a compensation structure as follows: American will pay BCG a flat fee of \$254,500 per week (with a team of approximately 8.8 FTEs) for the first six (6) weeks and \$392,500 per week for the final twenty-six (26) weeks (with a team of approximately 13.5 FTEs), with the total cost of the effort not to exceed \$11,732,000.⁴ On average, BCG's consultants, when on a project such as this, work approximately sixty (60) hours per week. To cost-out this effort, BCG has used a conservative estimate of fifty (50) hours. BSG estimates that during the course of this engagement in excess of 15 consultants will work on this engagement. BCG will not be utilizing any subcontractors or employees of foreign affiliates for the proposed engagement.⁵ Again, fees are inclusive of expenses. This flat fee was developed based on analyzing the total persons working on the engagement and the amount of hours that BCG estimates will be spent on this engagement utilizing a blended rate of \$580 per hour per person. BCG intends to apply for

⁴ The fee for the cascade project has no relationship to, and does not serve to recoup, the unpaid pre-petition amounts owed to BCG by American which, subject to Bankruptcy Court approval of the Cascade engagement, BCG has agreed to waive. The fee for the Cascade Project was independently calculated and based solely upon the work and expenses associated with the Cascade Project.

⁵ Prior to the filing of the application for approval of the Cascade Engagement, BCG used a subcontractor on a limited basis for word processing matters. Pursuant to communications with the United States Trustee, BCG will not use this subcontractor on the Cascade Engagement going forward.

compensation periodically but not more frequently than monthly for professional services rendered in connection with these cases.⁶

15. To the best of my knowledge, the compensation arrangement reflected herein is consistent with, and typical of, arrangements entered into by other similarly situated consulting firms rendering similar services for clients such as American.

16. Although it is not BCG's normal practice to keep detailed time records for its engagements, for this engagement BCG will maintain time records in half-hour (0.50) increments setting forth, in a summary format, a description of the services rendered by each professional and the amount of time spent on each date by each such individual in rendering services on behalf of American. For purposes of fee applications, BCG intends to rely on the blended rate of \$580 per hour per person.

17. In light of the foregoing, and to the best of my knowledge, information and belief, I believe BCG's fee structure is market-based and fair and reasonable.

18. BCG has not shared or agreed to share any of its compensation or reimbursement from American with any other person. BCG has not shared or agreed to share any compensation or reimbursement received by another person from the Debtors.

D. Indemnification and Contribution Provisions

19. As part of the overall compensation payable to BCG under the terms of the Statement of Work, American has agreed to certain indemnification and contribution provisions described in Consulting Services and Confidentiality Agreement between American Airlines, Inc. and BCG, effective as of May 13, 2008 (the "**Consulting Agreement**") which is attached as an exhibit to the Statement of Work (the "**Indemnification Provisions**"). The Indemnification Provisions, in part, provide that American shall indemnify, defend and hold

⁶ BCG has agreed to notify the United States Trustee when the scope of work is completed.

harmless BCG and its Affiliates and licensees, and each of their officers, shareholders, directors, and employees (collectively, the “**Consultant Indemnified Parties**”), from and against any and all Claims incurred by, borne by or asserted against any of the Consultant Indemnified Parties to the extent such Claims arise directly out of (i) any intentional or willful conduct or gross negligence of any employee or subcontractor of American, or (ii) unsecured breach of any representation or warranty of American contained in Section 9.2(b) of the Agreement.

20. The terms of the Statement of Work, including the Indemnification Provisions, were fully negotiated between American and BCG at arm’s length and BCG respectfully submits that the Indemnification Provisions are reasonable and in the best interests of American, its estate and creditors.

E. BCG’s Disinterestedness

21. During the ninety (90) day period prior to the Debtors’ bankruptcy filing, BCG received one payment from the Debtors in the amount of \$1,160,000 on September 14, 2011 for work performed in July 2011 and invoiced on August 12, 2011. Prior to the Debtor’s bankruptcy filing, BCG also invoiced American for work in the aggregate amount of \$6,503,200 for which it has not been paid. This amount remains outstanding and relates solely to amounts owed pre-petition under the Revenue Improvement Project (as defined below), the Base Maintenance Project (as defined below) and the Line Maintenance Project.⁷ Subject to entry of an order approving this retention, BCG agrees to waive this prepetition claim.

22. Between September 2011 and January 2012, BCG provided services relating to the Debtors’ base maintenance organization (the “**Base Maintenance Project**”). Between June 2011 and January 2012, BCG also rendered services that enhanced the Debtors’

⁷ The Line Maintenance Project involved non-bankruptcy related work by BCG seeking to improve the line maintenance operations of American to reduce delays and cancelations.

overall efforts to maximize revenues (the “**Revenue Improvement Project**”). The services provided under these agreements was rendered in the ordinary course of the business of the parties. Both engagements were non-bankruptcy assignments totally unrelated to the administration of the Debtors’ estate. Both engagements were initiated prior to the proposed Cascade Project and were completed shortly after the Debtors’ bankruptcy filing. With respect to the Base Maintenance Project, BCG identified certain operations at the Debtors where performance was declining. BCG also identified what could be done to improve performance for these operations. With respect to the Revenue Improvement Project, BCG assisted American to develop steps to improve its revenue performance by understanding both positive and negative historical revenue issues and to develop initiatives to enhance the positive revenue drivers and to address the negative revenue issues. After the Debtors’ bankruptcy filing, the Debtors requested BCG to continue working on the Base Maintenance Project and the Revenue Improvement Project in the ordinary course of business. This work has been fully completed and accepted by the Debtors. As set forth above, BCG is not seeking any compensation for any pre-petition amounts owed under these agreements. The Debtors currently owe \$1,867,600 (Revenue Improvement Project) and \$812,000 (Base Maintenance Project) for post-petition work and BCG has been advised by the Debtors that these amounts will be paid in the ordinary course of business.⁸

23. The Debtors have numerous creditors, equity holders and other parties with whom they maintain business relationships. In connection with its proposed retention by American in its chapter 11 case, BCG undertook to determine whether it had any conflicts or other relationships that might cause it not to be disinterested or to hold or represent an interest

⁸ These projects were also flat fee compensated matters staffed by BCG employees with blended rates comparable to those being assigned to the Cascade Project.

adverse to American. BCG obtained from the Debtors and/or its representatives a conflicts checklist with the names of individuals and entities that may be parties in interest in these chapter 11 cases (“**Potential Parties in Interest**”). A categorized summary of the conflicts checklist is provided on Exhibit 2 annexed hereto. Specifically, BCG searched the list of Potential Parties in Interest against a list of BCG’s current and former clients during the last two (2) years. Pursuant to the terms of the contracts with its current and former clients, the identities of BCG’s current and former clients are confidential.

24. To the best of my knowledge and belief, insofar as I have been able to ascertain after reasonable inquiry, neither I, nor BCG, nor any of its professional employees has any “connection”⁹ with American, its creditors, or any other Potential Parties in Interest in these chapter 11 cases, except as follows:

- (a) Before the Commencement Date, BCG rendered prepetition services to American for which fees and expenses remain outstanding. Upon entry of the order approving this Application, BCG will waive its claim for such prepetition amounts.
- (b) BCG is a large consulting firm and it and its affiliates have provided and are currently providing consulting services to various Potential Parties in Interest. To the best of my knowledge, information and belief, BCG’s services to such Potential Parties in Interest were and are on unrelated matters wholly unrelated to these chapter 11 cases and such representation does not constitute an interest materially adverse to American.
- (c) A few of the employees of BCG working on this engagement are also working on an engagement for an entity which American has advised is an affiliate of American. To the best of my knowledge, information and belief, BCG’s representation of that entity is wholly unrelated to the proposed engagement and such representation does not constitute an interest materially adverse to American.

⁹ Neither the term “connection,” as used in Bankruptcy Rule 2014, nor the proper scope of a professional’s search for “connection” has been defined, and I am therefore uncertain as to what this Court may consider a “connection” requiring disclosure. Out of an abundance of caution, I am disclosing that BCG has or has had engagements with Potential Parties in Interest, but, to my understanding, no such engagement is disqualifying or problematic under either the Bankruptcy Code or the applicable standards of professional ethics.

- (d) BCG has, in the ordinary course of its business, purchased and is expected to continue to purchase, goods and services and has banking, insurance and other commercial relationships with various organizations, including professionals, on the list of Potential Parties in Interest. To the best of my knowledge, information and belief, these relationships in no way create a conflict which would in any way disqualify BCG from working for American.
- (e) BCG sent an e-mail to its employees asking them to advise whether they had connections to American. Based upon responses received, a few employees of BCG and its affiliates have immediate family members that are related to employees of the Debtors, are employed by the Debtors, or have business relationships with the Debtors. To the best of my knowledge, information and belief, none of these individuals will be connected with this proposed engagement. The BCG employees who responded to the e-mail have identified the following types of connections with the Debtors: (a) father was a warehouse supervisor at American Eagle; (b) family members are pilots at American or American Eagle; (c) former employee until 2009; (d) brother is a mechanic; (e) first cousin is a flight attendant and union representative; and (f) wife accepted job at American scheduled to start later this year as a MBA strategy/marketing analyst. To the best of my knowledge, information and belief, none of the persons who have such connections with BCG are insiders of the Debtors.
- (f) BCG sent an e-mail to its employees asking them to advise whether they hold equity securities of the Debtors. To the best of my knowledge, information and belief, based on the responses received a few employees of BCG and its affiliates may hold equity securities of the Debtors. To the best of my knowledge, information and belief, each individual, however, holds a *de minimis* amount of securities, *i.e.*, no more than 500 shares. Moreover, to the extent that any of these employees are consultants (not administrative/staff personnel), subject to entry of the Order approving such retention, such employees shall sell such equity securities as requested by the United States Trustee as soon as practicable.
- (g) BCG and American Airlines have entered into various vendor agreements in the past and may enter into such agreements in the future. Under the terms of these agreements, American provides reduced airfare rates for BCG employees engaging in business travel on American Airlines, American Connection and American Eagle flights. We understand that these vendor agreements are not unique to BCG and are generally available to high volume users of American Airlines. BCG has no claims against the Debtors arising out these agreements. BCG may have a right to replace airline tickets with respect to a small amount of unused tickets.

25. To the best of my knowledge, information and belief, six Potential Parties in Interest are current or former clients whose revenues (for each client) accounted for more than one percent of BCG's gross annual revenue on a consolidated basis in the years 2010 and/or

2011. None of these Potential Parties in Interest accounted for more than four percent of BCG's gross annual revenue on a consolidated basis in 2010 or 2011.¹⁰ BCG's work for these clients involved advice with respect to strategy and operations services, general business consulting services, and management consulting services. Other than the work provided to American, the work for these clients does not relate in any way to American (or any other Airline) or these Chapter 11 cases.

26. I am not related or connected to and, to the best of my knowledge after reasonable inquiry, no other professional of BCG who will work on this engagement is related or connected to any United States Bankruptcy Judge for the Southern District of New York, the U.S. Trustee for the Southern District of New York or any employee in the Office of the U.S. Trustee for the Southern District of New York except for the following connections (the BCG personnel related to the connections described below will not be working on the proposed engagement):

a. A BCG employee's husband served as a law clerk to the Honorable Allan L. Gropper; and

b. A BCG employee serves on a board of a school with the Honorable Allan L. Gropper.

27. To the best of my knowledge, information and belief, insofar as I have been able to ascertain after reasonable inquiry, BCG has not been retained to assist any entity or person other than American on matters relating to, or in direct connection with, the chapter 11 cases. If the Court approves American's proposed retention of BCG, BCG, during the duration of this engagement, will not accept any engagement or perform any service for any entity or person other than American in these chapter 11 cases. BCG will, however, continue to provide

¹⁰ American is one of these entities.

professional services to entities or persons that may be creditors of American or Potential Parties in Interest in the chapter 11 cases, *provided* that such services do not relate to, or have any direct connection with, the chapter 11 cases and/or the services to be provided by BCG to the Debtors.

28. In addition, BCG and its affiliates, consistent with practice across BCG entities that provide client services, serve clients across a broad range of industries, functions, and geographies, and, within industries, serve competitors and do so in a manner that protects the confidentiality of each client's information (including the confidentiality of the engagement itself). Thus, BCG and certain of its affiliates may have in the past provided services for, may presently be providing services for, and may in the future provide services for entities that are determined to be creditors, lenders, shareholders, insurers, customers, competitors, vendors, contract counterparties, or otherwise Potential Parties in Interest; however, to the best of my current knowledge, information and belief, subject to the caveats set forth herein, such services do not focus on direct commercial relationships or transactions between such companies and American. BCG and its affiliates do however, from time to time provide overall strategic analysis and advice to companies that operate in the airline, transportation or other fields in which American operates, which analysis and advice could include, *inter alia*, review and comment on publicly available information which may mention American, as well as other companies.¹¹ Similarly, certain members of BCG and its affiliates may have business associations with certain of American's creditors or other Potential Parties in Interest, or interests adverse to such creditors or Potential Parties in Interest herein, which associations to the best of my knowledge and information have no connection with these proceedings.

¹¹ To the extent that BCG is requested to perform engagements for any competitors of American on unrelated matters, BCG will immediately implement an ethical wall so as to assure that none of the employees assigned to this matter work on these other engagements and that the employees working on those other engagements do not work on the American engagement. This will ensure that the confidentiality of BCG's work for American is fully protected.

29. To the best of my knowledge and belief, insofar as I have been able to ascertain after reasonable inquiry, none of the employees of BCG working on this engagement on American's behalf has had, or will have in the future, direct contact concerning the chapter 11 cases with American's creditors, other Potential Parties in Interest, the U.S. Trustee or anyone employed in the Office of the U.S. Trustee other than in connection with performing consulting services on behalf of American.

30. Accordingly, except as otherwise set forth herein, and insofar as I have been able to determine after reasonable inquiry, none of BCG, I, nor any employee of BCG who will work on this engagement holds or represents any interest adverse to American or its estate, and BCG is a "disinterested person" as that term is defined in Section 101(14) of the Bankruptcy Code, as modified by Section 1107(b) of the Bankruptcy Code, in that BCG, its professionals and employees:

- (a) are not creditors, equity security holders or insiders of American;
- (b) were not, within two years before the date of filing of the American's chapter 11 petition, a director, officer or employee of American; and
- (c) do not have an interest materially adverse to American, its estate or any class of creditors or equity security holders by reason of any direct or indirect relationship to, connection with, or interest in American, or for any other reason.

31. If any new relevant facts or relationships are discovered or arise during the pendency of these chapter 11 cases, BCG will use reasonable efforts to identify such further developments and will promptly file a supplemental affidavit as required by Bankruptcy Rule 2014.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true
and correct.

Dated: Boston, Massachusetts
February 28, 2012



Ken Keverian
Senior Partner and Managing Director
The Boston Consulting Group, Inc.

Exhibit 1 to the Amended Declaration

Statement of Work



January 9, 2012

Tom Horton
Chairman, President, and CEO
AMR Corporation
4333 Amon Carter Blvd.
Fort Worth, TX 76155

Dear Mr. Horton,

The following statement of work, entered into and governed by the terms of the Consulting Services and Confidentiality Agreement between American Airlines, Inc. and The Boston Consulting Group, Inc. effective May 13, 2008, recaps the management restructuring effort and lays out the objectives, work approach and BCG resource support.

1 The Management Cascade

American has advised BCG that it would like to redesign its management structure to ensure it is well positioned for a successful future. In particular, American has advised BCG that it wants to create:

- The right team for the job ahead
- A management structure that fosters accountability and high performance, adaptability, and fast, effective decision making
- An efficient cost structure that makes American competitive

BCG will be launching a process to redesign the organization against these objectives, utilizing a unique, well tested and proven methodology which it has developed over time. The process is a "cascade" – which starts with the top layer of the organization and "cascades" down. As each layer is designed, the managers in that layer design the next, and so on. The overall concept of the approach is:

Cascade-redesign typically motivated by combination of objectives	<ul style="list-style-type: none">• <i>Responsiveness:</i> Flatten the pyramid, increase spans of control, structure for more agile decision making• <i>Talent:</i> Ensure that our best people are in the right roles• <i>Cost:</i> Meaningful streamlining of management
A fact-based, disciplined	<ul style="list-style-type: none">• Key to achieving transformational and enduring results



process and fair/objective process	<ul style="list-style-type: none"> • Fair and objective • Rooted in facts on roles, reporting and shape of pyramid
The process starts at the top and cascades down	<ul style="list-style-type: none"> • Top layer designs and staffs the next layer ... cycle continues <ul style="list-style-type: none"> – Everyone participates – the top layers set the direction for the "outcome" – the new team owns the structure and selection that results
Hard work, but important and unifying	<ul style="list-style-type: none"> • Steering Team working together • Important to "wire in" ongoing progress

BCG's methodology incorporates key steps that have been refined over the years and consistently proven necessary to achieving the objectives American has defined for this effort:

- The diagnostic step involves gathering a detailed fact-base for the current organization. This step often surfaces opportunities where spans of control may be low, banding levels are overstated, activities may be in the 'wrong' place, and/or the number of layers is high.
- The planning step then sets up "principles and design rules" for a redesign to address these opportunities as well as other strategic objectives for the company
- Finally, the cascade redesign does the actual redesign of the organization (structure and people) – layer by layer – consistent with these "principles and design rules."

The cascade redesign is a well coordinated set of activities that allows each manager to create an effective and efficient organization. Each manager is given the responsibility to determine how his/her work should be organized (i.e., "what boxes should be below them") and whom to staff in those "boxes" as his/her direct reports. This begins the process of putting the strongest talent in the top positions, and instilling principles of accountability and performance.

The redesign of the organization – structure and talent – requires a high degree of thoughtfulness and work activity. The CEO will decide on how best to organize the work and staffing for his direct reports (layer 2). The CEO's direct reports will then need to do this for their direct reports (layer 3). Those individuals will need to do the same. This process repeats until all managers in the organization have gone through this process.

At each layer, BCG will use the following process:

- **Launch and baseline:** The manager reviews current organizational baseline for all responsibilities – old and newly acquired – to determine how the work is being done today. It is also at this point that the manager is informed of the budget he/she has for headcount and any other rules that would affect design and staffing.
- **Design:** In this step, the manager designs the positions in the immediate layer below him/her. At this point, the manager will organize work to optimize output. Unneeded work



activities will also be identified and eliminated. Job descriptions may need to be rewritten. The level of each job may also need to be reviewed to ensure consistency across the organization. Recognizing this cannot be done "in a silo," there is a peer-review to ensure that the organization, as newly structured, will better support each other. If one manager objects to how another would like to design his/her organization, those issues are surfaced, discussed, and the best outcome agreed on. In BCG's experience, it has been observed that sub-groups sometimes form across the company tasked with similar outputs – if these exist, the associated work is eliminated at this point in the process. Questions of centralization and decentralization are also addressed and changes to historical precedent can be made.

- **Staff:** Once the manager has determined the best design for his/her team, he/she now reviews and selects candidates to be on the team. Managers will need to know 1) who is available to be staffed, 2) the historical job performance of those candidates, and 3) the future potential of those candidates. Managers will also need to consider the potential to hire candidates into American when the newly defined roles require expertise and knowledge not currently available inside the organization. As in the previous step, selections are subject to a peer review where conflicts are resolved (e.g., two managers would like to staff the same candidate).
- **Communicate:** In this final step, the manager communicates to all affected employees, first individually and then as a team.

Once announcements are made to the organization, this newly staffed employee will begin the process of designing his/her organization with the "launch and baseline" step and the cascade continues.

Each cycle takes ~4-5 weeks and the timeline is noted below (timing may be a bit longer in more complex cycles).

The process begins with one manager designing his direct reporting structure in the first cycle (the CEO designing layer 2), but quickly grows to 8-10 managers designing their direct report structures for layer 3, and ultimately many managers designing their direct reporting structures in parallel for the lower layers. The complexity and need for coordination become critical throughout this "multi-tasked" process.

2 Project governance

BCG recommends that the cascade be governed by a Steering Team made up of the CEO and his direct reports. This Steering Team will be formed after going through the first cycle of the cascade. The Steering Team will be responsible for overall leadership of the effort and addressing conflicts that arise during peer reviews for both the Design and Staff phase of the cascade.

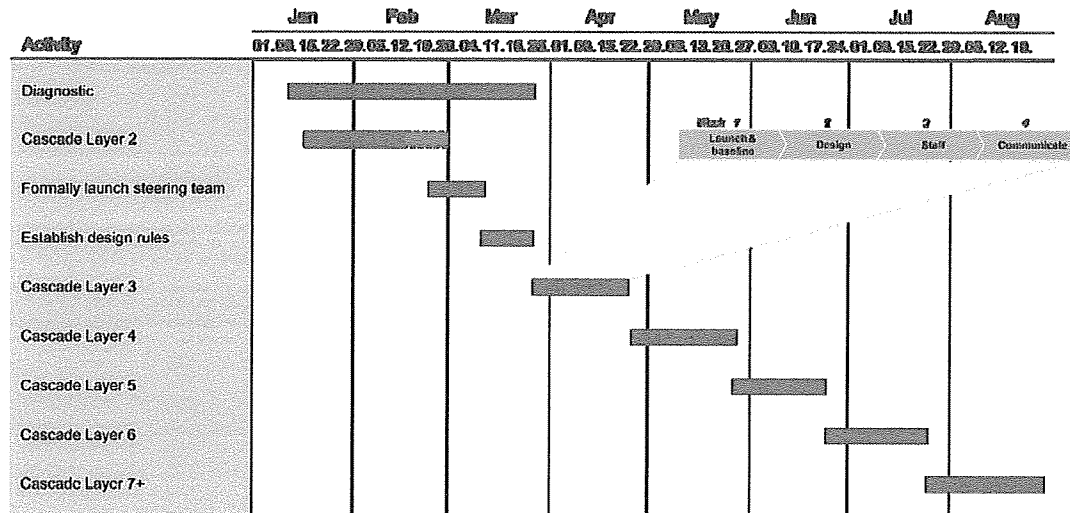
BCG also recommends putting in place an Operating Team that will be responsible for day-to-day program management of the entire effort. This team will also be responsible for ensuring that



process discipline is maintained throughout the effort and that the agreed-to objectives are being met at each layer.

3 Timeline

The timing for the management cascade follows a typical rhythm of ~6-7 weeks of planning/diagnostic, followed by ~4-5 weeks for each cascaded layer. BCG will push to a "clocked" timetable, recognizing that events within the company may add a few weeks to the total. The approximate timeline BCG will be working towards (which includes 4 weeks per layer) is shown below:



4 Deliverables

At the end of this effort, American should expect the following

- An organization that has been redesigned with respect to the future of American. The organization will be focused on the future and on creating competitive advantages that benefit American in the current and anticipated industry structure.
- A learning organization that is agile enough to take calculated risks and be more responsive to industry changes
- The removal of duplication that has come to exist over the course of time



- More complete job descriptions and appropriate job leveling that will serve as a tighter control over the ongoing evolution of organizational structure and design
- The removal of low-value adding activities and work products which consume time and resource today, but will not going forward
- The best "talent" in American's key managerial roles, giving renewed energy and thinking to their responsibilities, including the identification of talented individuals who American would like to elevate into more senior roles
- Each team member vested with a sense of ownership of the organization which they designed and accountability for its performance

5 Why BCG is uniquely positioned to support this cascade

BCG's role is to work with the American team to facilitate and drive a successful cascade process. BCG will provide deep experience in this type of work, an outside/objective perspective, analytical contributions to the design, and tools that help run an efficient process. BCG and American will work very closely together on each of these activities because it is important that the ultimate organizational decisions, while arrived at by a BCG-facilitated process, are American's decisions.

Over time BCG has developed a unique, proven methodology to move as efficiently as possible and to steer clear of potential obstacles that can delay the process or dilute the intended outcome. BCG will deploy this methodology while "customizing" to the realities of American's specific situation.

In addition to having a track record of success using the cascade methodology, BCG is also uniquely positioned to support American given BCG's long history with the company and the resulting depth of understanding of American's organization. BCG has worked with American since 1994, across headquarters and in the field, with both management and frontline employees, and in the most recent years with the Commercial team, Operations, Maintenance, HR, Airports and others. This in-depth understanding of American will help the cascade process get traction very rapidly, and ensures that BCG can support American in making decisions grounded in the realities of the business.

Finally, BCG will be leveraging the full strength of BCG and specifically its Organizational Practice Area and Travel & Tourism Practice Area for relevant tools and benchmarks.

Please find a more complete set of BCG credentials in the attached appendix.

6 Working Together and Resourcing

It is critical that this be an American-led redesign. BCG will serve as an objective advisor and catalyst, and will provide process support and leadership.



On the American side, it will want to form the Steering Team (the CEO and his direct reports) plus an Operating Team (co-led ideally by two steering team members, but including Officers from different functions).

On behalf of BCG, Ken Keverian, Raj Varadarajan, Vikrant Bhatia and Kevin Kelly are each experienced with this uniquely BCG type of redesign work and will provide overall leadership. In addition BCG will field a team of dedicated consultants to work through all phases of the cascade (diagnostic, planning, cascade redesign).

In terms of resourcing, BCG will start with a somewhat smaller team during diagnostic and planning, and ramp to a larger team during cascade redesign (which must support design activities across the entire organization).

BCG's rate will be a flat fee of \$254,500 per week for the first 6 weeks (with a team of ~8.8 Full Time Equivalents, or FTEs) and a flat fee of \$392,500 per week for the final 26 weeks (team of ~13.5 FTEs) – with the total cost of the effort not to exceed \$11,732,000 for the scope of work outlined. This includes both professional fees plus expenses.

Note that while for these types of efforts it is common for work weeks to exceed 50 hours per FTE – BCG has conservatively budgeted assuming ~50 hour work-weeks for the effort. Also note that the precise project duration and team size may vary from the estimates stated above – though the effort will remain within the "not-to-exceed" cost for the scope of work outlined.

* * *

BCG understands this is a historic time for American – a time to rebuild the company to be the very best in its industry.

Regards,

A handwritten signature in black ink, appearing to read "Ken Keverian".

Ken Keverian
Senior Partner &
Managing Director

A handwritten signature in black ink, appearing to read "Raj Varadarajan".

Raj Varadarajan
Partner &
Managing Director

A handwritten signature in black ink, appearing to read "Vikrant Bhatia".

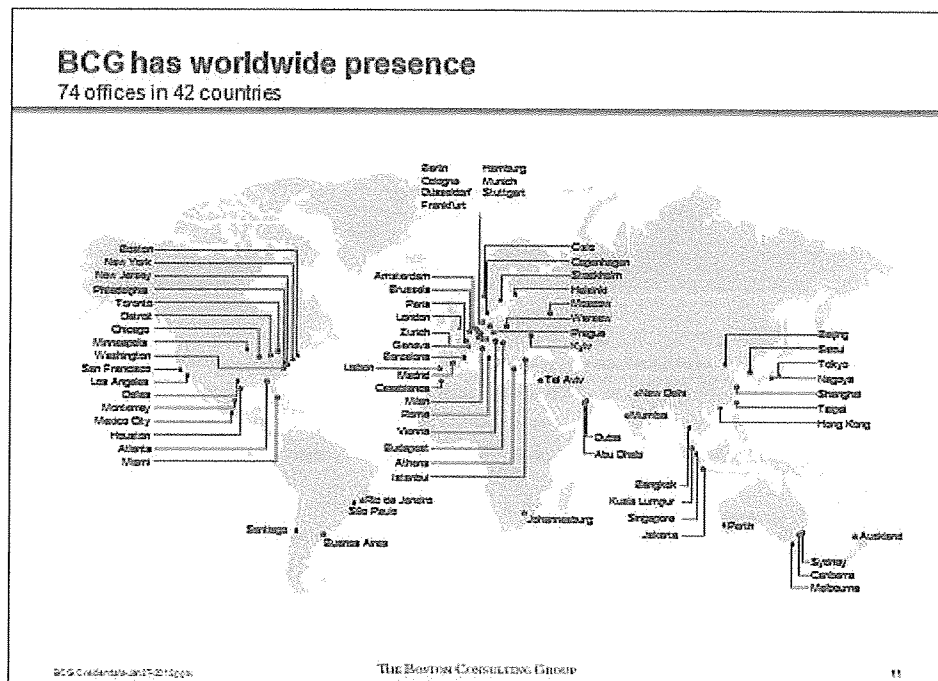
Vikrant Bhatia
Partner &
Managing Director

Agreed to: _____



Appendix: Firm qualifications and experience

BCG is a global management consulting firm, founded by Bruce Henderson in 1963. It has 74 offices in 42 countries, and its current CEO is Hans-Paul Bürkner. We partner with clients in all sectors and regions to identify their highest-value opportunities, address their most critical challenges, and transform their businesses.



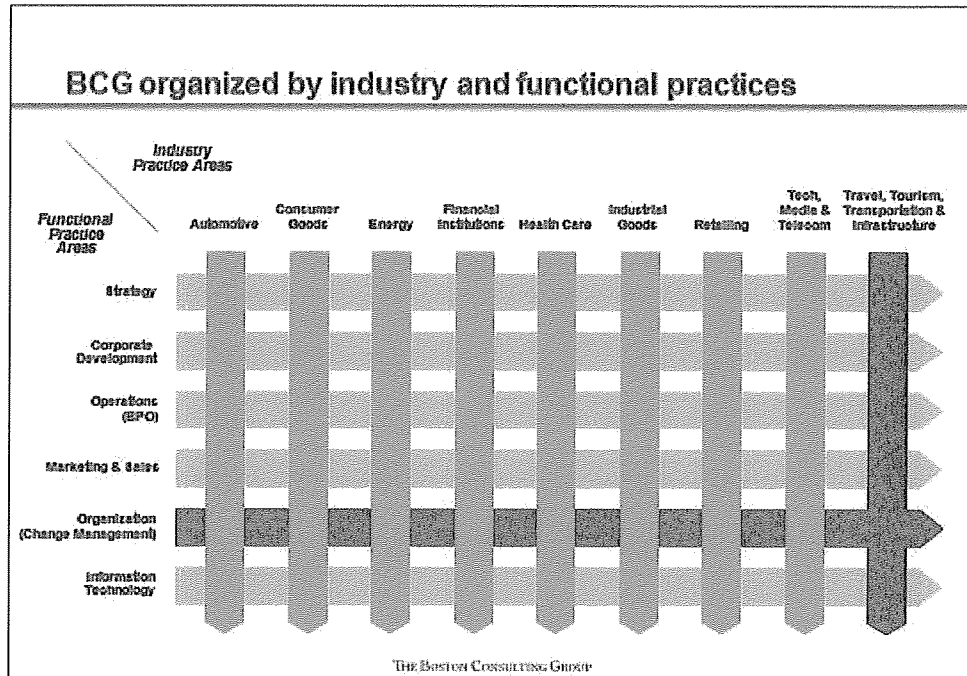
Today, BCG has more than 4,800 consultants, and >\$3B in revenues. Since 1990, our growth has exceeded that of competitors by 1.5-2.0x. Moreover, greater than 75% of our revenues are derived from clients that we have served for more than five years. This attests to the value we create for our clients and their satisfaction in our work.

BCG prides itself on its employee-focused culture, and over the last four years has been the only top-tier consulting firm to appear in Fortune magazine's 'Best companies to work for' report. In the 2011 list, BCG is listed as the 2nd best company to work at, and is the only top-tier consulting firm to appear in the top 100.

BCG is a private partnership with over 600 partners worldwide. BCG is organized in a matrix structure, with both industry-oriented Practice Areas and functionally-oriented Practice Areas. Our partners and many of our more senior consultants typically 'specialize' in specific topic areas (either industry or functional or both). This specialization allows BCG to bring the deep domain expertise to



bear in solving many of our client problems. Our structure and working style are especially amenable to leveraging the broader capabilities that BCG possesses (domain expertise, geographical expertise, client relationships, etc.) as needed in any client engagement. This organization is illustrated in the following figure.



Our Heritage

Since its inception in 1963, BCG has been at the forefront of business management. Many of our ideas and concepts — such as time-based competition, the growth/share matrix, capabilities-based competition, and the experience curve — have had such a fundamental impact on the success of corporations that they have become central to the business lexicon. BCG continues to lead the way on issues at the vanguard of management thinking and practice, such as organizational effectiveness, global advantage, value management, sustainability, and networks. We take pride in seeing our ideas successfully implemented. Many of our deepest client relationships have been with companies that transformed their industries. This tradition of transforming businesses continues to motivate us today.

We have been recognized for our global impact:

- “The Boston Consulting Group is the most influential source of strategic advice worldwide”
— *Financial Times*



- “The most profound conceptual innovation in management consulting over the last decades was initiated by Bruce Henderson, founder of The Boston Consulting Group in 1963” — *The Economist*
- “I like some consultants: those who make you think. The Boston Consulting Group is the most interesting of the consulting companies, because they question fundamentally what's going on” — *Tom Peters, author of “In Search of Excellence”*

Overview of BCG’s Travel, Tourism, Transportation, and Infrastructure Practice

BCG’s Travel, Tourism, Transportation, and Infrastructure practice works with companies in the transportation spectrum, as well as with companies in related industries. Our practice has dozens of expert partners worldwide with significant experience and deep expertise in the sector. In addition we can access hundreds of consulting professionals worldwide to draw upon any needed expertise (e.g., functional, geographical, etc.) that may be needed.

We have considerable experience and expertise across the travel and tourism sector, with hundreds of projects completed for clients in the past five years. Much of the work of this practice focuses on aviation strategy, organization and operations.

BCG has an extensive and impressive set of clients, including:

- 10 of the world’s busiest airports.
- Two of the three largest global travel agencies.
- 6 of the world’s largest hotel groups.
- Two of the five largest air freight and logistics companies (by traffic).
- Three of the four largest airframe manufacturers and two of the world's largest aerospace and defense corporations.
- More than 15 rail companies (passenger and cargo) globally.
- Numerous private equity companies with travel and tourism interests.

Each year, the practice invests in sector R&D, some of which is turned into industry publications (a sample of which is displayed below).



BCG is regarded as a leading thinker in travel and tourism
We consistently publish on topics important to the industry

Select recent publications

<p>The Global Infrastructure Challenge by Thomas H. Doherty and Thomas H. Doherty</p> <p>Infrastructure is the backbone of the global economy, and its development is a critical challenge for the world. This report examines the challenges of infrastructure development in the 21st century and offers a framework for addressing these challenges.</p>	<p>CUTTING TO FIT by Thomas H. Doherty and Thomas H. Doherty</p> <p>Managing the BCG portfolio of infrastructure assets, which are often highly leveraged and have long payback periods, requires a disciplined approach to capital allocation and portfolio management.</p>	<p>Planes, Trains, and Automobiles Crossing Paths in European Travel</p> <p>This report examines the challenges of managing the transition from a traditional travel agency to a modern travel company, focusing on the European market.</p>	<p>Harvard Business Review</p> <p>The Threat of Global Gridlock by Thomas H. Doherty</p> <p>Global gridlock is a real threat to the world economy, and it is essential to understand its causes and consequences in order to develop effective strategies to avoid it.</p>	<p>Railway Gazette INTERNATIONAL</p> <p>Rail and air compete or co-operate?</p> <p>ALSTOM</p>	<p>TAKE YOUR PARTNERS by Thomas H. Doherty and Thomas H. Doherty</p> <p>Managing the BCG portfolio of infrastructure assets, which are often highly leveraged and have long payback periods, requires a disciplined approach to capital allocation and portfolio management.</p>	<p>Planes, Trains, and Automobiles Crossing Paths in European Travel</p> <p>This report examines the challenges of managing the transition from a traditional travel agency to a modern travel company, focusing on the European market.</p>	<p>Planes, Trains, and Automobiles Crossing Paths in European Travel</p> <p>This report examines the challenges of managing the transition from a traditional travel agency to a modern travel company, focusing on the European market.</p>
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THE BOSTON CONSULTING GROUP

BCG is regarded as a leading thinker in travel and tourism

<p>"Middle Eastern Megacarriers Gaining Altitude"</p> <p>Analysis of the long-haul travel market in the Middle East and its implications for legacy carriers</p>	<p>"Taking Off: Travel and Tourism in China and Beyond"</p> <p>Opportunities found in China's rapidly growing travel market</p>	<p>"Planes, Trains and Automobiles?"</p> <p>A comparison of traveler preferences across transport modes in 13 countries</p>
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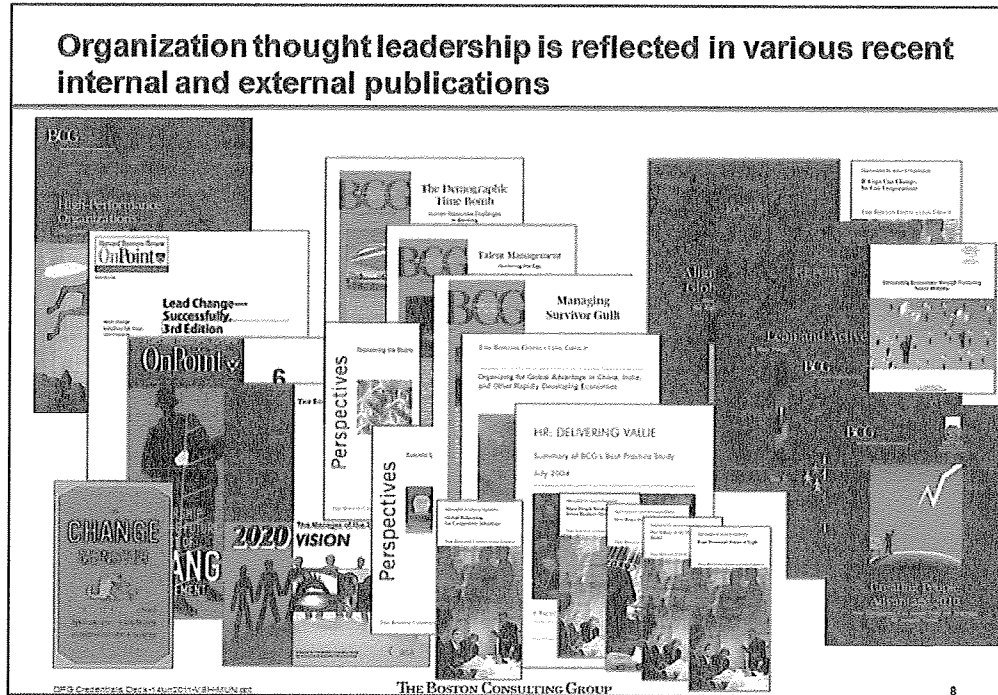
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Our value proposition is focused on levers that are top issues for CEOs. A significant portion of our focus is placed on building leadership, designing the organization for alignment / accountability, hiring and developing the "right" people and driving a sustained change (see next figure).



In addition to these efforts, BCG has invested in R&D to further our capability and credentials in the Organization practice. This has resulted in several internal and external publications (see next figure).



Throughout the course of this effort, we will draw on the expertise from two Practice areas, as well as from the broader BCG population as needed, to ensure we are addressing any and all of your needs.

Exhibit 2 to the Amended Declaration

Retention Checklist

- Debtors
- Trade Names
- Affiliates
- Top 50 Unsecured Creditors
- Largest Unsecured Funded Debt Creditors
- Top 100 Trade Creditors
- Top 5 Secured Creditors
- Officers and Directors (current and former up to last three years)
- Affiliations of Officers and Directors
- Beneficial Holders (5% or more)
- Unions
- Financial Institutions
- Aircraft Lenders and Lessors
- Financial Derivative Counterparties
- Landlords
- Major Competitors
- Bankruptcy Judges for the Southern District of New York
- United States Trustees for the Southern District of New York
- Major Litigation Claimants
- Insurance Providers
- Taxing Authorities
- Utilities
- Professionals